



## MEMORANDUM

March 31, 2010

TO: Scott Ullery, City Manager

FROM: Mark Charles, Chief of Environmental Management

VIA: Craig Simoneau, Director of Public Works  
Susan Swift, Director of Community Planning and Development Services

SUBJECT: Potential Incentives for Exceptional Green Buildings

### Background

Rockville's proposed green building regulations, embedded in the amendments to *City Code Chapter 5 – Buildings and Building Regulations*, sets a baseline requirement for all future buildings to be "green" to some degree. An incentive program for exceeding the minimum green building code requirements has been part of the general discussions related to the development of Rockville's green building program. At the public hearing on February 8, 2010, the Mayor and Council requested additional information on potential incentive options for promoting *beyond-compliance* green features in new buildings or retrofits to existing buildings. Although the conventional "green premium" costs associated with building green are dissipating rapidly, jurisdictions through out the country offer incentives to promote LEED certification or the installation of certain innovative technologies.

The proposed green building regulations apply to all new construction and significant renovations to both residential and commercial buildings. The proposed amendments will require all new nonresidential buildings and additions or alterations of 7,500 square feet or more to demonstrate how they intend to obtain at least 25 points in the appropriate Leadership in Energy and Environmental Design (LEED®) rating system. While encouraged, official LEED certification involving the achievement of a minimum of 40 points and third-party verification by the Green Building Certification Institute (GBCI) is not required.

The purpose of this document is to present a menu of incentives that may motivate builders and developers to go beyond the minimum requirements and achieve an exceptional green building or incorporate certain innovative green technologies, such as renewable energy systems, green roofs, or grey water systems. Additionally, since Chapter 5 does not compel any action by

existing building owners, the City may incorporate incentives that motivate such owners to improve energy efficiency and water conservation.

The creation of an incentive program would strengthen Rockville's proposed green building program by balancing local building code regulations with a system of voluntary incentives to encourage innovation. During the original green building workshops held in April of 2008, stakeholders identified incentives that are tailored to different building types and needs as particularly important in a time of a declining building market. Green building and energy incentives would also support City and regional sustainability, energy, and climate protection goals by encouraging high performance buildings that minimize the use and waste of energy, water, and other resources as well as promote public health, safety, and welfare. Rockville is a member of the Metropolitan Washington Council of Government's Climate, Energy and Environment Policy Committee (COG-CEEPC), which was created to provide regional leadership on climate change, energy, green building, alternative fuels, solid waste and recycling issues. The CEEPC's *2010-2012 Regional Climate and Energy Action Workplan* contains recommendations for all member jurisdictions to adopt policies that require or encourage: 1) private-sector commercial buildings to achieve a regional LEED-certified plus standard; 2) retrofits to residential and commercial buildings that achieve energy savings; and 3) the installation of renewable energy systems in residential and commercial buildings. While the green building code requirements proposed in Chapter 5 move the City in the right direction, they will not fully accomplish all of these goals without the inclusion of an incentive component.

The following discussion identifies potential green building incentive options for further consideration by the Mayor and Council. Depending on which incentive options the Mayor and Council decide to pursue, several of these approaches will require coordination between Finance, Community Planning and Development Services, and Public Works. These options should be discussed and considered as the green building program requirements are finalized, so that appropriate incentives can be in place at the time of ordinance implementation.

The subsequent appendices/attachments summarize the research factored into the evaluation and identification of these potential incentive options. Attachment B provides an overview of successful green building incentives employed by state and local governments throughout the country and examines the feasibility of employing them in Rockville. Attachment C includes an inventory of existing federal, state, county, and utility green building and energy efficiency incentives that are already available to Rockville businesses and residents. In order to more efficiently and effectively target limited City resources, a series of unique local incentives could be devised that promote and complement the existing incentives identified in Attachment C to further encourage developers, building owners, or homeowners to implement beyond-compliance green measures in new buildings or retrofits of existing buildings.

## Potential Green Building Incentive Options

Rockville should consider targeting local incentives to encourage: 1) the achievement of exceptional green buildings (such as LEED Gold or Platinum certification for commercial projects); 2) retrofits and improvements to existing buildings; and 3) the installation of innovative green technologies. The Department of Community Planning and Development Services, the Environmental Management Division, the Department of Finance, the Sustainable Development and Energy Committee, and the Environment Commission reviewed the available options and local conditions and identified the following seven potential incentive options for consideration by the Mayor and Council. If the Mayor and Council decide to develop a *pilot green building program*, they may incorporate one or all of these incentive options. Examples of how all of these incentives could work together to form comprehensive residential and commercial programs are charted in Attachments D and E, respectively. The pilot program would sunset when the City updates Chapter 5 to comply with the 2012 cycle of the International Code Council (ICC) model building codes. At that time, the City would reevaluate the need to continue or modify the green building incentive program.

The incentive options are presented in order of general resource needs: \$\$\$ indicates the option will require the most investment of staff and financial resources; \$\$ indicates a moderate investment of staff financial resources; and \$ indicates the City has programs in place that could be modified with limited resources to serve as a green building incentive. A more detailed analysis of the financial and staff resources required to implement the selected options would be provided in future.

### 1) Tax Incentives (\$\$\$)

**Departments:** Finance, Community Planning and Development Services, and Public Works

**Sector:** Commercial

**Description:** Offering developers a short-term reduction from applicable property taxes can make the construction of green buildings more feasible. The tax reductions would not commence until a green building is built and the incorporated green features are certified. After the initial reduction period, the tax rate adjusts to the otherwise applicable amount. Proponents claim that tax credits should be viewed as cost neutral, because the taxes from the new development are a new revenue stream and thus the City isn't "losing" anything by a tax reduction. In fact, it is likely that the new or redeveloped property would be more highly valued than the existing property and therefore, ultimately lead to increased revenues for the City once the credit has expired. A local tax credit would be in addition to whatever federal, state or county tax credits may apply.

- a) **Commercial:** Consider providing a tiered system of property tax credits for 3 to 5 years for new construction, core and shell, and existing buildings that achieve LEED Gold or Platinum certification by the USGBC/GBCI with a specified limit on total incentives that are available. A tax credit program for new construction and core and shell buildings that is similar to Howard County's and Montgomery County's models may provide a 5-

year tax credit for buildings that achieve LEED certification at the following levels: 50% for LEED Gold and 75% for LEED Platinum. For example, 2000 Tower Oaks Boulevard achieved LEED Platinum certification. This is the highest level of LEED certification and therefore would yield the largest tax credit. Under a similar tax credit system, this Platinum rated building could receive an average of approximately \$110,000 in tax credits per year, for a total of nearly \$555,000 over 5 years. However, the Mayor and Council would be able to structure a program to meet the City's needs.

In addition, LEED for Existing Buildings (LEED-EB) encourages owners and operators of existing buildings to implement sustainable practices and reduce the environmental impacts of their buildings over their functional life cycles. LEED-EB addresses exterior building site maintenance, water and energy use, environmental preferred products for cleaning and alterations, sustainable purchasing, waste stream management, and indoor environmental quality. A tax credit program for existing buildings that is similar to Howard County and Montgomery County may provide a 3-year tax credit for buildings that achieve LEED-EB certification at the following levels: 10% for Silver, 25% for Gold, and 50% for Platinum.

- b) **Residential:** Given that there are a variety of existing federal, state, county, and utility tax incentives and rebates available for residential energy efficiency and renewable energy systems, the City should first focus on educating residents on how to access these available tax incentives.

## 2) Permit Fee Partial Refunds (\$\$)

**Departments:** Finance, Community Planning and Development Services, and Public Works

**Sector:** Commercial and Residential

**Description:** As part of the City's comprehensive fee study and update process, the City may consider modifying fees to more accurately account for the staff and resource costs associated with the City's review of development and building applications. Commercial and residential buildings that exceed building code requirements and achieve a minimum rating through a third-party green building certification program may receive a refund of a portion of building permit fees.

- a) **Commercial:** Projects that go beyond compliance with the code and voluntarily achieve official LEED Gold and Platinum certification through the Green Building Certification Institute (GBCI) may receive a refund of a portion of the building permit fee. Upon submission of documentation of achieving an eligible LEED rating certification, the City may issue the applicant a refund.
- b) **Residential:** Projects that go beyond compliance with the code and voluntarily achieve either Silver, Gold, or Emerald status under the ICC/NAHB National Green Building Standards (NGBS) program or Silver, Gold, or Platinum status under the LEED Homes program may receive a partial refund of building permit fees. Upon submission of documentation of achieving an eligible LEED or NGBS rating certification, a refund may be issued.

### 3) Permit Fee Discounts (\$\$)

**Departments:** Finance, Community Planning and Development Services, and Public Works

**Sector:** Commercial and Residential

**Description:** As part of the City's comprehensive fee study and update process, consider establishing a system where higher permit fees are charged for construction or installation of technologies that meet basic building codes and discounted permit fees are charged for the installation of innovative green technologies. As illustrated in Table 1, the installation of innovative green technologies currently involves multiple permits and fees. According to 2010 building permit records, there were seventeen installations of solar energy systems (15 residential, 1 school, and 1 commercial). While a single \$85 permit fee was collected for residential installations, the permit fee collected for the commercial installation involved a filing fee as well as several permit fees, totaling \$7,660. Simplifying and discounting the permit fees for the installation of the innovative green technologies identified in Table 1 could further incentivize installation.

Table 1: Current Permit Requirements for the Installation of Green Technologies

*X - Indicates permit is required for system installation*

*/ - Indicates permit may be required for certain building and system designs*

Green Technology	Permit Type			
	Structural	Electrical	Plumbing	Mechanical
<b>Geothermal Heat Pump</b> <i>Reduces energy consumption and carbon emissions.</i>			/	X
<b>Green Roof</b> <i>Improves the urban environment by reducing the urban heat island effect, stormwater runoff, and energy use.</i>	X		/	
<b>Graywater</b> <i>Conserves water resources and reduces the amount of wastewater requiring treatment.</i>		/	X	
<b>Photovoltaic Energy (solar electricity)</b> <i>On-site renewable energy generation provides long-term cost savings, reduces the demand on electrical generation and distribution infrastructure, and reduces carbon emissions.</i>	/	X		
<b>Solar Hot Water</b> <i>On-site renewable energy generation provides long-term cost savings, reduces the demand on electrical generation and distribution infrastructure, and reduces carbon emissions.</i>	/	X	X	X



#### 4) Expedited Permitting (\$\$)

**Departments:** Community Planning and Development Services, Public Works, and Recreation and Parks

**Sector:** Commercial and Residential

**Description:** Perform a short-term audit of the City's current permitting process to define areas where expedited "green tracking" could save applicants time and money. Since the proposed amendments to the City Building Code will apply to all new buildings, process incentives would only be offered to those applicants going beyond the minimum requirements. A staff contact would be assigned to the project to shepherd the project through the process. Pre-project coordination, permit review, building inspections and occupancy certificates would be given priority review; however, the actual processing time would depend on a number of factors. Applications must be deemed complete for projects to move forward. The projects could be sent to the beginning of review lines and evaluated at the first opportunity, even jumping over projects already in the pipeline that propose to only meet the minimum building code requirements. Reviews, comments, and requests for additional information would also be done in a timely manner.

- a) **Commercial:** Create an expedited permitting pilot program for new buildings and major renovations that achieve LEED Gold or Platinum certification through the Green Building Certification Institute (GBCI). Applicants wishing to receive priority processing must first submit proof of LEED registration with the GBCI.<sup>1</sup> During each submission, an updated LEED checklist must be provided that is prepared, signed, and dated by the project LEED AP and indicates all of the credits that the projects intends to pursue. Upon providing documentation of achieving the LEED rating certification, the City would issue a refund of a portion of the building permit fee (see incentive option #2). If the expedited project fails to achieve at least LEED Gold certification, the City would retain the entire building permit fee.
- b) **Residential:** Create an expedited permitting pilot program for residential properties that achieve Silver, Gold, or Emerald status under the ICC/NAHB National Green Building Standards (NGBS) program or Silver, Gold, or Platinum Status under the LEED Homes program. Upon signing an Intent Form, a staff member would be assigned to track the project through the program. The project must register with either the Green Scoring Tool for the National Green Building Standard or the USGBC.<sup>2</sup> Reports downloaded from these programs would be submitted with the building permit application. Upon providing documentation of achieving the NGBS or LEED rating certification, the City may issue a partial refund of the building permit fee (see incentive #1). If the expedited project fails to achieve at least a Silver certification, the City would retain the entire building permit fee.

<sup>1</sup> The Project Registration Fee is a flat fee paid at the time of registration. The current rate is \$900 for USGBC members and \$1200 for non-members.

<sup>2</sup> Registration is available at: <http://www.nahbgreen.org/GreenStandard/Standard/CreateProjectWizardv2.aspx> and <http://www.usgbc.org/DisplayPage.aspx?CMSPageID=147#registration>

### 5) Rockville's existing *Home Improvement Program* (\$)

**Departments:** Community Planning and Development Services

**Sector:** Residential

**Description:** Rockville's existing *Home Improvement Program* can be used to further improve safety, indoor environmental quality, energy efficiency, and water conservation in existing homes. Under this program, eligible Rockville homeowners may apply for forgiveness loans to make improvements to their homes. The assistance received is in the form of home improvements – no monetary loans are involved. Funds for this program are currently provided by the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) program.

### 6) Education and Outreach (\$)

**Departments:** Community Planning and Development Services and Public Works

**Sector:** Commercial and Residential

**Description:** Expand staff education and technical assistance and coordinate with local partners (Montgomery County, Chamber of Commerce, utilities, trades, home improvement retailers centers, neighborhood associations, etc.) to increase green building education and outreach. The City can provide web-based information, hold forums on green building, and communicate about benefits and costs of different techniques. The City can track successes in City projects, changes in national and regional approaches to green buildings, technology advances, and financial costs and savings. The City may also educate residents and businesses on existing federal, state, county, and utility incentives and help them navigate the different incentive processes.

### 7) Marketing, Publicity, and Awards (\$)

**Departments:** Community Planning and Development Services, Public Works, Public Information Office

**Sector:** Commercial and Residential

**Description:** Expand local green building marketing, publicity, and awards to increase community awareness and build market demand. The City may commend businesses and residents participating in the incentive programs through the website, Rockville Reports, TRC 11, and the Environmental Excellence Awards (EEA).